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SUBJECT: TITAN CEMENT EXECUTIVE DISCUSSES IMPACT OF THE ECONOMIC
CRISIS AND THE GOG'S RESPONSE

SUMMARY

¶1. (SBU) The global economic crisis, which continues to have a significant impact around the world, has not spared even the most robust businesses in Greece. The global credit crunch has significantly affected the liquidity position of Greek companies, regardless of how strong their capital base was going into the crisis. In addition, the spread of the crisis to the real economy is having an even stronger impact on companies' balance sheets, as economic activity contracts and consumer demand declines. Recently, A/EconCouns and EconIntern met with Dimitris Papalexopoulos, the Managing Director of Titan Cement Company to gauge the private sector's assessment of and reaction to the crisis. As one of Greece's largest private companies, with holdings and investments in the U.S. and in South East Europe (SEE), Titan is a bellwether for how the Greek private sector is faring. Papalexopoulos indicated that, while the economic crisis has had a global reach, Titan's biggest losses have came from the United States and not its operations in Greece or its other holdings in the Balkan region and Egypt. Papalexopoulos was frank in his assessment of the GoG's handling of the crisis, indicating it had not done enough. He hopes that pressure from the IMF and European Commission (EC) will help force the structural changes so needed in order for Greece's economy to reform and continue to grow. End Summary.

TITAN: BACKGROUND AND ITS
REACTION TO THE CRISIS

¶2. (SBU) Founded in 1902, Titan is a cement producing company based in Athens. It is one of Greece's largest companies, with annual revenue of approximately EUR 1.5 billion. In addition to its base of operations in Greece, Titan has production facilities in Egypt, Bulgaria, Serbia, the Republic of Macedonia, and a large plant under construction in Albania, as well as large plants in the U.S. These investments make it well suited as a barometer for how private industry is faring in Greece and the region, especially given the importance of the construction industry and major infrastructure projects to the economy. Titan's most recent financial statement shows a 50 percent decrease in net profit over the first quarter of 2009 compared to the same time period in 2008. According to Dimitris Papalexopoulos, Titan's Managing Director, while European sales are down markedly, it has been the U.S. market's dramatic decline that has had the most negative influence on its balance sheet. Titan has $1 billion invested in the U.S., and it employs over 2,000 people there. [Note: Papalexopoulos received a degree in electrical engineering while studying in Zurich before attending Harvard Business School, where he earned his MBA. He has been with Titan, or its subsidiaries, since 1991 and was appointed to his current position in 1996. End Note.]

¶3. (SBU) Papalexopoulos stated that the macroeconomic conditions within SEE are largely representative of the global economy -- poor and uncertain. Overall, however, he believes the economic recession has been a bit milder in Greece than in some other EU countries. He attributes this to the fact that Greece's excesses, particularly in the real estate market, were not as extreme as elsewhere (i.e. the U.S. and Spain). While Greece entered the crisis with an overabundance of housing stock, real estate prices were not largely out of whack with fundamentals, and he expects the excess housing stock will easily be absorbed as the economy recovers. Moreover, according to Papalexopoulos, because a substantial part of the Greek housing stock is older, some portion of it will need to be replenished, which will help Greece's real estate sectors and, more specifically, his company's recovery. For these reasons, Papalexopoulos remains optimistic about his company's future in Greece. He is even more optimistic about Titan's future in SEE once a recovery begins. In his own terms, Papalexopoulos is "bullish" on SEE, where he sees a major need for housing stock and infrastructure in order for this region to catch up with consumer demand.

¶4. (SBU) Papalexopoulos told A/EconCouns and EconIntern that Titan predicts there will be a continued slowdown in demand throughout the remainder of 2009, particularly in Greece and SEE. Aside from a decrease in overall demand and consumer spending, Greek businesses are suffering from a shortage of available credit and the resulting liquidity issues. Titan's strategy in the face of the crisis and continued slowdown, Papalexopoulos told us, was to create a capital cushion by cutting back on all new projects planned in 2009 and keeping the lid on all capital expenditures that could drain cash resources. Unfortunately, like its competitors and other businesses

worldwide, trimming down has meant laying off staff. According to Papalexopoulos, keeping lean in this manner will give Titan maximum flexibility, allowing the company to weather the current storm and placing it in a strong position to leverage their capital once recovery begins. While he did not expand on the specifics of what signs of recovery Titan would look for, Papalexopoulos did say that Titan was prepared to continue investing heavily in Greece and in markets in SEE "once sentiment improves." He thinks that the tremendous liquidity boost by the U.S. and other countries will help start the global recovery, but he expects more steps will be needed by all governments and international institutions to sustain this recovery.

VIEWS ON THE GOG'S RESPONSE AND
ADDITIONAL REFORMS NEEDED

¶5. (SBU) Papalexopoulos, who also sits on the board of directors of the Foundation for Economic and Industrial Research, (IOBE, which describes itself as one of Greece's only private, non-profit economic think tanks), gave us a frank assessment of the challenges he sees confronting Greece. He agrees that the main issues with which the GoG must contend include a ballooning fiscal deficit and external debt, pension and health sector reform, educational reform, deregulation of labor and product markets, improving competitiveness, shrinking the size of the public sector, and attacking widespread and endemic corruption and tax evasion. Papalexopoulos said that while any politician or economist (including former Minister of Finance George Alogoskoufis and current Minister of Finance John Papathanassiou) would itemize the same challenges, the problem in Greece is that no one has the political will to confront them. Both main political parties (opposition PASOK and governing New Democracy), in his opinion, wasted 10 years of strong growth and supportive global economic conditions, doing little to tackle these long- Papathanassiou to fight tax evasion and improve competitiveness, standing issues. While he applauds the promises of Minister he sees few concrete measures being taken to achieve these goals. Papalexopoulos believes pressure is needed to galvanize the GoG to act. He hopes that the crisis can be used as an opportunity by entities such as the IMF and the EC to urge the GoG to take action that will finally alter the structure of the Greek economy. Otherwise, he fears that a prime opportunity will be lost and more time will be wasted.

COMMENT

¶6. (SBU) Papalexopoulos was a candid interlocutor, sharing his views on the crisis, his company's response, and his thoughts on the GoG's response, or lack thereof. While he indicated he is sanguine that economic conditions in Greece and the region would improve with a global recovery, his views on the GoG tackling fundamental structural challenges were far less optimistic. While Greece has not been as hard hit as some other European countries, left unresolved, its structural challenges will delay any economic recovery in the short and medium term and dampen prospects for a return to the strong growth the Greek economy experienced earlier in this decade. Post largely agrees with Papalexopoulos that the current crisis provides an impetus for change, but that the political will needed to implement significant structural reforms is yet to be demonstrated.
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